



**MINUTES FROM MEETING OF
THE COLLEGE INVESTMENT COMMITTEE
SEPTEMBER 26, 2016**

A meeting of the College Investment Committee was held on September 26, 2016
At 12:00 PM in the Conference Room of the Office of the State Treasurer (OST)
Located at 820 Silver Lake Blvd., Suite 100, Dover, DE 19904

Committee Members Represented or in Attendance:

Mr. José Echeverri, Chair, Plans Management Board (Telephonically)
Mr. Stephen Saville, Chair, College Investment Committee (Telephonically)
The Honorable Ken Simpler, State Treasurer
Ms. Karen Field Rogers (on behalf of Secretary Godowsky, Department of Education) (Telephonically)
Ms. Valerie Watson, (on behalf of Secretary Thomas J. Cook, Department of Finance)
Mr. Don Shandler, Public Member at Large (Telephonically)

Committee Members Not Represented or in Attendance:

None

Others in Attendance:

Ms. Ann Marie Johnson, Deputy Attorney General (Telephonically)
Ms. Nora Gonzalez, Deputy State Treasurer, Office of the State Treasurer
Mr. John Meyer, Director of Contributions and Plan Management, Office of the State Treasurer
Ms. Martha Sturtevant, Office of the State Treasurer
Mr. Keith Bernhardt, Fidelity (Telephonically)

CALLED TO ORDER

Mr. Saville called the meeting to order at 12:04 PM.

REPORT FROM DEPUTY ATTORNEY GENERAL

Ms. Johnson had no updates for the Committee.

REPORT FROM FIDELITY

Mr. Bernhardt provided a summary of the Delaware College Investment Plan (529 Plan) portfolios and asked the Committee to consider a proposal from Fidelity to change contractual clauses related to the Multi-Firm portfolios. He noted that Fidelity manages the College Investment Plans for the State of New Hampshire (The Unique College Investing Plan), Arizona (Arizona College Savings Plan) and Massachusetts (UFund Massachusetts 529 Plan) and the implementation of the changes is proposed for all of them. Mr. Echeverri asked if all states have received and approved or are considering to approve the exact same proposal. Mr. Bernhardt said that the proposal is the same, all states have been briefed, two already voted in favor, one would adopt the recommendation at the next meeting, and the consideration process in Delaware just started.

Mr. Bernhardt stated that the 529 Plan offers a range of investment options to participants. He indicated that one broad category of investment options is the age-based, which are portfolios managed by Fidelity in a manner that adjusts the asset class mix over time (generally moving from equity investments to fixed income investments as the account beneficiary approaches college age). He illustrated the concept with a few examples.

Mr. Simpler asked for clarifications on the types of portfolios within the age-based category and the estimated percentage of assets held by each. Mr. Bernhardt clarified that each portfolio is made up of several underlying mutual funds and that within the category there are three different types. He provided the description and asset breakdowns for each and added that about 80% of participants' contributions are invested in such portfolios.

- Fidelity Funds – age-based portfolios invested in Fidelity actively managed mutual funds (75%)
- Fidelity Index – age-based portfolios invested primarily in Fidelity index mutual funds (20%)
- Multi-Firm – age-based portfolios invested in a mix of mutual funds from different mutual fund families (5%)

Mr. Bernhardt clarified that the Multi-Firm portfolios were launched in 2011 with the objective of providing choice to participants who wanted investment options from fund families other than Fidelity. He stated that the 529 Plan currently has offerings from about 10 mutual fund families and explained that changes in the mutual fund market have made the Transaction Fee (TF) share classes less expensive and more broadly available across fund companies.

Mr. Bernhardt asked the Committee to consider removing the contract provision that requires Multi-Firm age-based portfolios available in the 529 Plan to be No Transaction Fee funds (NTF). He explained that NTF mutual funds are traded on the Fidelity brokerage platform without assessing fees but the funds generally pay a share of expenses to Fidelity to cover expenses related to recordkeeping, distribution, account maintenance, customer servicing, and statement mailings. He explained that TF mutual funds are traded on the Fidelity brokerage platform with a fee which is assessed by Fidelity to cover the aforementioned costs.

Mr. Bernhardt added that this change will permit portfolio managers to leverage a broader array of mutual funds including those that have lower expense ratios. He stated that the net result is an estimated reduction in the multi-firm portfolio expense ratios from a range of approximately 1.05% to 1.44% to a lower range of 0.92% to 1.18% and that therefore participants would have lower fees, and Fidelity will receive less revenue.

The Committee discussed the change to the contract language to remove the requirement that multi-firm age-based portfolios invest in NTF funds. Mr. Saville asked if the change would increase participation. Mr. Bernhardt said the change is helpful, but the result would not likely be a large increase.

Ms. Johnson asked Mr. Bernhardt about the deadline for approval and implementation. Mr. Bernhardt said October 14th is the targeted implementation date and Fidelity would need to receive approval in writing or executed copies of the addendums to the existing contracts.

A MOTION was made by Mr. Simpler and seconded by Mr. Saville to approve (subject to legal review) the modification of the Fidelity contract to remove the clause that requires the use of NTF mutual funds in the Multi-Firm portfolios.

MOTION ADOPTED UNANIMOUSLY

NEW BUSINESS

Mr. Meyer reviewed the 2010 agreement between the 529 Plan and the Delaware Children's Museum (DCM). Mr. Echeverri elucidated the history of the agreement and the relationship between the 529 Plan and DCM.

The Committee discussed the second pledge amount included in the original agreement. Committee members expressed concern regarding DCM's long-term solvency and inquired about what steps have been taken to address those challenges. Additionally, the Committee deliberated on how the relationship with DCM would benefit the 529 Plan participants and requested that OST reach out to DCM's leadership team and invite them to present their operations and strategic plan at the October 11th meeting.

Mr. Simpler clarified that the Committee would need to submit a recommendation to the Plans Management Board (Board) regarding whether or not to authorize payment of the second pledge amount. Ms. Watson requested that the Committee have an opportunity to review performance indicators and assess if there was a return on investment to the Plan participants before seeking approval from the Board. She also requested a legal review of the agreement.

OLD BUSINESS

There was not any old business for consideration.

PUBLIC COMMENTS

No members of the public present for comment.

ADJOURNMENT

A MOTION was made by Ms. Watson and seconded by Mr. Simpler to adjourn the meeting at 12:49 PM.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

Stephen Saville
Chair, College Investment Committee